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DEPARTMENT FOR WHA/BSC, WHA/EPSC, S/P MANUEL
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SUBJECT: AMBASSADOR SOBEL'S MEETINGS ON ETHANOL IN SAO PAULO

¶1. Summary: During his October 4-10 visit to Sao Paulo, Ambassador Sobel met with the new country president of Archer Daniels Midland (ADM), who advised that prospects for new infrastructure investment in Brazil are poor and that the company does not plan to produce ethanol outside the U.S. The Ambassador also met with Rubens Mello, CEO of Brazil's largest sugar company, and toured a sugar/ethanol mill. Mello advocated for the lifting of the U.S. import levy on Brazilian ethanol exports. He expressed some doubts about the prospects for developing biofuels industries in third countries.
End Summary.

MEETING WITH ADM

¶2. Ambassador Sobel met October 5 with Domingo Lastra, the new president of Archer Daniels Midland (ADM) in Brazil. Lastra provided an overview of the company's activities in Brazil, Paraguay and Bolivia and noted that the Brazil unit is responsible for activities in all three of those countries. He further noted that ADM's activities are overwhelmingly focused on origination, processing and sales of soy, grains, and some other primary commodities, as well as grower financing and input distribution.

¶3. The Ambassador asked about the possibilities for further development of transport infrastructure and the prospects for Public-Private Partnership (PPP) development projects. Lastra replied that investment in infrastructure has been negligible over the past few years, and that prospects for new investments are poor due to lack of government funding and lack of adequate guarantees of public contributions in PPP projects.

¶4. Ambassador Sobel further noted that ADM is the U.S.'s largest ethanol producer and asked if the company has interest in producing ethanol either in Brazil or in third countries. Lastra responded that as far as he is aware, ADM has no plans to produce ethanol outside the U.S. He also noted that ADM's new CEO, Patricia Woert, would visit Brazil October 18-20 to discuss the ethanol market with Development and Trade Minister Furlan and others.

COSAN: SUGAR AND ETHANOL DISCUSSIONS

¶15. On October 9, the Ambassador, accompanied by DPO and ATO Director, visited the corporate headquarters of Cosan in Sao Paulo and the Costa Pinto sugar/ethanol mill in Piracicaba in the interior of the state. Cosan is the largest sugar company in Brazil, producing about eight percent of Brazil's sugar and ethanol. The Ambassador was hosted for the day by COSAN CEO Rubens Mello and Eduardo Carvalho, President of the Sao Paulo State Sugar Industry Association (UNICA).

¶16. The day began with a meeting at Cosan headquarters. Mello gave an overview of his company's activities and size in relation to the Brazilian industry as a whole. Cosan is Brazil's largest production group, with 17 sugar mills and interests in two sugar/ethanol export terminals in the port of Santos. Dr. Carvalho emphasized the importance of Sao Paulo state in national sugar production. About 65 percent of Brazilian sugar is produced in the state. The Ambassador asked what the key is to building a world ethanol market.

Both responded that lifting of the \$0.54/gallon import levy on Brazilian exports would be the key to building volume and allowing the market to develop. With respect to prospects for developing biofuel industries in third countries, Mello said that the possibility exists, but that third country sugar industries are often propped up by artificially elevated local prices and preferential access to markets such as the U.S. or the E.U. As a result, ethanol is not a cost-effective use for local cane in these countries.

VISIT TO SUGAR MILL

¶17. The group then proceeded to Piracicaba and toured the Costa

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Pinto sugar mill. Costa Pinto was built in 1946 and crushes approximately 1.5 million tons of sugar cane per year, producing both sugar and ethanol. The Ambassador and his delegation were driven to the canebrakes and observed manual harvesting of sugar cane, which is still needed for cane planted in rough terrain, as well as mechanized harvesting at cane planted in level terrain. Afterward, the group followed the progress of cut sugarcane through the delivery and crushing areas. At Costa Pinto, two lines with five mills each crush sugarcane 24 hours a day from April through November. The group also visited the ethanol production line, receiving an explanation on the fermentation and distillation process.

¶18. Following the mill visit, the group transferred to the Mello's Campo Alto farm for lunch. Discussion centered on Brazil's desire for access to the U.S. ethanol market, prospects for development of sugar/ethanol industries in other countries, and new investor interest in the Brazilian sugar industry. Mello will be traveling to Washington in the near future, and Ambassador Sobel recommended that he meet with several people in Washington including both IDB and Department contacts. Post will forward Mello's agenda to Greg Manuel (S/P) for follow-up.

¶19. This cable was coordinated with Embassy Brasilia and cleared by Ambassador Sobel.

MCMULLEN